

**STATE OF ILLINOIS  
ILLINOIS COMMERCE COMMISSION**

AMEREN ILLINOIS COMPANY	)	
d/b/a Ameren Illinois	)	
	)	Docket No. 13-0476
	)	
Revenue-neutral tariff changes	)	
related to rate design.	)	
	)	

**INITIAL BRIEF OF AMEREN ILLINOIS COMPANY**

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Dated: January 7, 2014

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## **I. Introduction**

### **A. Introduction**

Under the Energy and Infrastructure and Modernization Act (EIMA), 220 ILCS 5/16-108.5(e), Ameren Illinois Company d/b/a Ameren Illinois (AIC, Ameren Illinois, or Company) initiated this proceeding by proposing several revenue neutral tariff changes to the rate design of its performance-based formula rate, Rate Modernization Action Plan – Pricing Tariff (Rate MAP-P). None of these proposals alter the overall formula rate electric revenue requirement; rather, they determine how that revenue requirement will be recovered from AIC’s customer classes. The Commission approved AIC’s current electric rate design in Dockets 09-0306 *et al.* In this proceeding, AIC is proposing modifications to the rate design of how AIC recovers electric delivery revenues under Rate MAP-P—including modifications to the cost of service, revenue allocation, rate mitigation, and the component pricing process—for electric delivery rates that will be effective for the January 2015 billing period.

The driving force behind AIC’s proposed rate design changes is an intent to reasonably allocate the electric revenue requirement across customer classes such that the allocated costs for a particular class accurately represent the costs incurred to serve that class. This intended outcome is what is referred to as cost-based rates. In some cases, movement towards cost-based rates meant proposing a rate design change that furthered the elimination of existing inter-class and intra-class subsidies—the DS-4 subsidy caused by the current non-uniform Electric Distribution Tax (EDT) rates across classes and the DS-3 and DS-4 rate limiter credits—while considering the principles of gradualism and avoidance of rate shock. In other cases, this movement meant proposing a change to the allocation of costs to avoid an over- or under-allocation of costs to a particular class—the allocation of primary distribution lines and the

allocation of General & Intangible (G&I) Advanced Metering Infrastructure (AMI) assets. And in still other cases, such a goal meant proposing a refinement to a current rate design structure—the use of Straight Fixed Variable (SFV) in the design of DS-1 and DS-2 rates—to advance towards the target of collecting 50% of the class revenue requirement through fixed charges. A secondary consideration, which is specific to AIC, is to propose a rate design that eventually allows for rate uniformity across rate zones, in instances when the record shows a sufficiently similar cost basis across each zone for a particular charge.

Many of AIC proposals have met no opposition. And still others, where Staff or an intervening party initially raised questions or concerns, have been resolved, to the apparent satisfaction of all parties. But a few issues remain contested. And although the list is short, the issues are significant and the opinions on the proper outcomes are divergent. The remaining contested issues include:

- The appropriate cost allocator for primary distribution lines—AIC has agreed with Staff on a Modified Primary Line Allocator;
- Whether the Commission should order a workshop or investigation into the allocation of single-phase primary distribution facilities and, in the meantime, assign a fixed percentage of those costs exclusively to secondary customers—AIC does not believe the record in this case or the decision in Docket 13-0387 supports either proposal;
- The appropriate cost allocator for G&I AMI plant—the communication network and Information Technology (IT) hardware and software assets—AIC contends that the costs of these assets should follow the allocation of the AMI meters;
- The appropriate rate mitigation and treatment of the Electric Distribution Tax (EDT)—AIC has proposed a revenue allocation three-tiered approach that makes meaningful progress towards eliminating the existing DS-4 EDT subsidy;
- The appropriate pricing for the Transformation Capacity Charge for Rate Zone II DS-4 +100 kV customers—AIC believes the cost basis for transformation service and the desire to reach a uniform EDT rate supports its proposed lower charge;
- The appropriate terms for the proposed new temperature-based DS-6 class and the timetable for the elimination of the DS-3 and DS-4 rate limiter credits—AIC and

GFA have produced an agreement on the terms and timetable that Staff supports; and

- The use of SFV in the design of the Customer Charge for the DS-1 and DS-2 classes—AIC contends that the record supports the continued use of SFV and urges the Commission to avoid the adverse impacts of unwinding that rate design.

As discussed further below, the substantial weight of the evidence in the record supports the adoption of AIC's positions on the remaining contested issues, as well as on the resolved issues.

## **B. Nature of AIC's Operations**

AIC is a combination gas and electric public utility whose service area is located in central and southern Illinois and consists of former service territories of its three predecessor companies: AmerenCILCO, AmerenCIPS, and AmerenIP. AIC was formed on October 1, 2010, when AmerenCILCO and AmerenIP were merged into AmerenCIPS. Concurrent with the merger, the newly formed company changed its name to Ameren Illinois Company and began doing business in this State as Ameren Illinois. Ameren Illinois provides electric delivery service to approximately 1.2 million Illinois customers.

## **C. Legal Standard**

In January 2012, AIC elected to become a participating electric utility in the State's infrastructure investment program under Section 16-108.5 of the Public Utilities Act (the Act or PUA). That election requires AIC to make incremental capital investment in its distribution systems over the next 10 years, including the introduction of Advanced Metering Infrastructure (AMI). That election also permitted AIC to choose to recover its electric delivery services costs through a performance-based formula rate approved by the Commission. 220 ILCS 5/16-108.5(c). The Commission approved AIC's performance-based formula rate—Rate MAP-P—in Docket 12-0001. Subsequent to that approval, AIC has submitted two "update" filings in April

2012 (Docket 12-0293) and April 2013 (Docket 13-0301) to update the cost inputs to Rate MAP-P based on AIC's actual delivery costs for the prior year. 220 ILCS 5/16-108.5(d).

This proceeding arose from the filing of revenue-neutral tariff changes related to the rate design of Rate MAP-P—a filing that AIC is required to make every three years, as long as its formula rate remains in effect. 220 ILCS 5/16-108.5(e). The rate design changes to Rate MAP-P approved by the Commission in this proceeding ultimately will be used to design rates effective for the January 2015 billing period, after the conclusion of the next “update” case.

## **II. Cost Allocation**

### **A. Resolved Issues**

#### **1. Allocation Using Supply and Service Voltage Designations**

AIC proposes to modify its Electric Cost of Service Study (ECOSS) to allocate distribution plant costs using supply voltage and service voltage, rather than the current methodology that allocates those costs based solely on supply voltage. (Ameren Ex. 2.0 (Schonhoff Dir.), pp. 7-9.) Staff agreed with AIC that allocating these costs using the supply voltage alone results in illogical and inappropriate allocation of costs, and recommended Commission approval of this proposed allocation change. (ICC Staff Ex. 1.0C (Rukosuev Dir.), pp. 12-13.) The Office of the Attorney General (AG) also accepted AIC's position on this ECOSS modification. (AG Ex. 1.0 (Rubin Dir.), p. 4.) As no other party addressed this issue in testimony, it is considered resolved.

#### **2. Functionalization of Overhead Distribution Lines**

AIC proposes a modification to the functionalization of overhead distribution lines (FERC Accounts 364-365) from a two-stage process to a process that incorporates all voltage categories of overhead distribution lines into the Replacement Cost New (RCN) study. (Ameren

Ex. 2.0 (Schonhoff Dir.), pp. 13-15.) Staff agreed conceptually with the proposed method, but requested additional evidence to substantiate the reasonableness of the modification and establish that it would better reflect cost causation. (ICC Staff Ex. 1.0C (Rukosuev Dir.), pp. 7-10.) AIC provided additional evidence, which included an explanation of the superior accuracy and functionalization of costs using this modification, as well as an explanation of why a new cost allocation method was not required by adoption of the functionalization modification. (Ameren Ex. 5.0 (Rev.) (Schonhoff Reb.), pp. 3–9.) In rebuttal, Staff agreed that AIC’s new method will provide a better functionalization of costs, and therefore recommended Commission approval of AIC’s proposed change to the functionalization of overhead distribution lines. (ICC Staff Ex. 4.0 (Rukosuev Reb.), p. 3.) The AG also accepted AIC’s position on this ECOSS modification. (AG Ex. 1.0 (Rubin Dir.), p. 4.) As no other party addressed this issue in testimony, it is considered resolved.

### **3. Use of CUST370 and CUST370A Allocation Factors for Meter Investments**

AIC refined the presentation of the meter investment allocation in proceedings after Dockets 09-0306 *et al.*, by separating meter investment components into two categories: (i) Meters (CUST370) and (ii) Potential and Current Transformers (CUST370A). (Ameren Ex. 5.0 (Rev.) (Schonhoff Reb.), pp. 25–31.) The Illinois Industrial Energy Consumers (IIEC) initially presented concerns that CUST370A was a new allocation method that should not be adopted without additional support. (IIEC Ex. 2.0 (Alderson Dir.), pp. 2–10.) These concerns were eliminated by AIC’s explanation that use of the CUST370A allocator was not a methodological change in the way costs would be allocated. (IIEC Ex. 4.0 (Alderson Reb.), p. 2.) IIEC no longer objects to the use of the CUST370A allocator and this issue is no longer contested.



## **B. Contested Issues**

### **1. Allocator for Primary Distribution Line Costs**

#### **Summary**

Staff and AIC have reached an agreement regarding the primary distribution line allocation method that should be used by AIC for rates effective for the January 2015 billing period. The product of this agreement is the “Modified Primary Line Allocator,” which contains allocation factors presented on a class-specific basis in AIC Cross Exhibit 3. This method is a hybrid of the Coincident Peak (CP) allocation method generally supported by Staff and the Non-Coincident Peak (NCP) allocation method generally supported by the AIC. As explained below, the Modified Primary Line Allocator is reasonable given recent precedent on the topic and addresses specific concerns held by AIC regarding the potential under-allocation of costs to DS-5 and DS-6 customers resulting from the application of the CP method recommended by Staff. Disagreement between Staff and AIC on the propriety of using the CP or NCP method for distribution plant has been ongoing since at least 2009. (*See e.g., Cent. Ill. Light Co. et al.*, Dockets 09-0306 *et al.*, Order (Apr. 29, 2010), pp. 232–37.)

As indicated on AIC Cross Exhibit 3, this Modified Primary Line Allocator allocates primary distribution lines costs based on CP demands for the DS-1, DS-2, DS-3 and DS-4 customer classes, uses an allocation percentage equal to that derived using the NCP method for the new DS-6 customer class, and incorporates a percentage equal to 50% of the value derived under the NCP method (which is also roughly equivalent to the value derived using the 12 CP method) for DS-5 street lighting customers. (*See* AIC Cross Ex. 3; *see also* Tr. 131:12–132:2.) Staff agreed that the Modified Primary Line Allocator is “a reasonable approach to resolution of this issue” (Tr. 132:3–6) and both Staff and AIC recommend the method be adopted by the Commission.

## **Background**

As described by Ameren witness Mr. Ryan Schonhoff, AIC currently<sup>1</sup> allocates gross distribution plant associated with primary distribution lines using a CP allocator. (Ameren Ex. 2.0 (Schonhoff Dir.), p. 9.) Under this method, “the amount of primary distribution line plant cost allocated to each delivery service rate class is proportionate to the class’s contribution, if any, at the time of the Company’s annual single hour system peak demand.” (*Id.* at 9:190–93.) However, for purposes of this case, AIC proposed to adopt the NCP method, which allocates costs according to “the single highest hourly aggregate demand at the time of peak for only those customers within each rate class, regardless of the time of AIC’s overall system peak demand.” (*Id.* at 9:194–10:199.) Staff contested the AIC’s NCP proposal and “debated [with the Company] at great length” about the proper method to use going forward. (Tr. 130:23–131:4.)

AIC’s support of the NCP method is predicated on the argument that such method is more appropriate to use in allocating facilities operated at lower voltage levels, such as primary distribution lines, and which have lower load diversity than higher voltage distribution facilities. (Ameren Ex. 5.0 (Rev.) (Schonhoff Reb.), p. 14; *see also* Ameren Ex. 8.0 (Schonhoff Sur.), p. 4.) However, as evidenced by its testimony, AIC also was, and is, particularly concerned about the under allocation of costs to DS-5 and DS-6 customers under the CP approach. (Ameren Ex. 2.0, pp. 12–13; *see also* Ameren Exs. 5.0 (Rev.), pp. 14–16; 8.0, pp. 12–21.) Any under allocation in this respect would “adversely and inappropriately” affect the other classes. (Ameren Ex. 5.0 (Rev.), pp. 9:190–10:196.) AIC is also cognizant of the history of, and precedent behind, this topic. (Ameren Ex. 2.0, p. 10.)

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<sup>1</sup> The current method is consistent with the methodology approved in Dockets 09-0306 *et al.*, the last general delivery service case approved for AIC prior to implementation of the Energy Infrastructure Modernization Act.

### **Effect of the Modified Primary Line Allocator on the DS-5 class**

Specific to DS-5 street lighting customers, Ameren witness Mr. Schonhoff testified that “[u]nder the currently-approved CP demand method, the DS-5 lighting class *fails to receive a single dollar of the cost of primary distribution lines*, due to the fact that the CP Demand is zero during AIC’s single hour peak. It is inappropriate to allocate zero costs of substations and primary distribution lines to a class that uses both of these facilities . . . .” (Ameren Ex. 2.0, pp. 12:255–13:260 (emphasis added).) Staff, on the other hand, argued that the AIC-proposed NCP method over allocates costs on the class and thereby “penalizes” lighting customers, who benefit the system as a whole. (ICC Staff Ex. 1.0C (Rukosuev Dir.), pp. 35:790–36:821.)

The Modified Primary Line Allocator addresses this situation by allocating to the DS-5 customer class 50% of the primary distribution line costs that would have otherwise been allocated to DS-5 customers using the AIC-proposed NCP method and represents a middle ground approach between the (CP) allocator offered by Staff and the (NCP) allocator offered by AIC. (AIC Cross Ex. 3.) This allocation factor ensures that the DS-5 customer class is allocated some (albeit a small percentage of) primary distribution line costs, but also tempers the allocation to address Staff’s concerns about the potential for an over allocation of distribution plant costs for the DS-5 class under the NCP method.

### **Effect of the Modified Primary Line Allocator on the DS-6 class**

With respect to the new DS-6 customer class (discussed below), AIC is similarly concerned that such class would receive cost allocations of the primary distribution system that are “far too low” using the CP method. (Ameren Ex. 5.0 (Rev.), p. 15:306–09.) As described by Ameren witness Mr. Schonhoff, “[t]he DS-6 rate class imposes large demands on the primary distribution system (primary distribution lines) and the CP method simply doesn’t perform well when allocating costs of primary distribution lines to this class.” (*Id.* at 16:318–20.) The NCP

method, however, “more appropriately recognizes that the DS-6 class does impose its largest demands on the primary system during the Off-Peak fall period” and therefore, is “more appropriate to [use in] allocat[ing] costs of primary distribution lines....” (*Id.* at 16:320–23.) Staff originally criticized AIC’s logic with respect to the DS-6 allocation method (1) because AIC had failed to provide more information regarding the number of circuits serving grain drying customers and that peak during the Fall and (2) because the DS-6 class was “new” and, therefore, had not been sufficiently studied. (ICC Staff Ex. 1.0C, pp. 36:823–37:836.) Related to its second point, Staff also expresses additional concerns about the levels of switching that may or may not occur under the new DS-6 rate (ICC Staff Ex. 4.0, pp. 20:438–22:474) and, similar to the arguments raised with respect to the DS-5 class, argued that usage during off peak periods should be rewarded, not “punished” (*Id.* at 19:398 –408).

In surrebuttal testimony, AIC provided counterpoints with respect to these arguments, explaining that based on the Company’s review of the billing determinants provided in the proceeding, it expects customers to switch to the new DS-6 rate, which will be beneficial to many of those who are eligible. (Ameren Exs. 8.0, pp. 20-21; 8.1.) This migration can “drive the annual primary distribution line peak demand, pushing the peak to occur in the fall.” (Ameren Ex. 8.0, p. 18:384–85.) As explained by Mr. Schonhoff, “[t]he primary distribution line must be designed and constructed to meet the maximum demand on the line regardless of when it occurs.” (*Id.* at 21:434–35.) And if the maximum demand occurs in the Fall, as is anticipated to be the case for the new DS-6 class, “[c]ost causation in this situation would indicate that the demand used to allocate the cost of primary distribution line to [these] customer[s] should be the maximum fall peak demand [sic], not their summer CP demand [sic].” (*Id.* at 21:440–42.)

As indicated on AIC Cross Exhibit 3, the Modified Primary Line Allocator allocates to the DS-6 class an amount equal to the percentage derived using the AIC-proposed NCP method. This approach is reasonable given the concerns expressed in testimony by Mr. Schonhoff about the adoption of the CP method and the additional support for AIC's NCP proposal offered by Mr. Schonhoff.

**Effect of the Modified Primary Line Allocator on the DS-1, DS-2, DS-3 and DS-4 classes**

As indicated on AIC Cross Exhibit 3, the Modified Primary Line Allocator allocates the remaining primary distribution line costs *based* on CP demands for the DS-1, DS-2, DS-3 and DS-4 customer classes. (AIC Cross Ex. 3.) But to be clear, this allocation *is not equal to* the stand-alone allocations derived under the CP approach, given the adjustments made to the DS-5 and DS-6 customer classes discussed above. (*Id.*) In fact, each of the DS-1, 2, 3 and 4 customer classes are allocated less costs under the Modified Primary Line Allocator than it would have been allocated had the Commission adopted the Staff-advocated CP method for those classes. (*Id.* (comparing the NCP % to the CP %).) And the resulting values, with the exception of those applicable to the DS-1 class, all fall between the values advocated by Staff and those advocated by AIC. (*Id.*) The Modified Primary Line Allocator allocates to the DS-1 class less costs of primary distribution lines than either the NCP or the CP method.

And this result is reasonable given the recent history on this issue and the fact the agreement, as a whole, addresses AIC's DS-5 and DS-6 customer class concerns. Although AIC has in this case presented different, additional, and perhaps more information on this topic than was provided in the Dockets 09-0306 *et al.*, the Commission in that docket found the CP method to be the preferred method for allocating substation and primary distribution line costs. Mr. Schonhoff expressly recognizes this decision in his testimony (Ameren Ex. 2.0, pp. 10:200–13:275), and the relevant portion of that Order is as follows:

When constructing or expanding primary lines and substations, a utility considers what load those customers to be served by the facilities will impose on the facilities. In most situations, the facilities will serve customers from more than one customer class. The peak of each individual class to be served by the facilities is irrelevant. What is relevant is the combined or coincident peak of all of those served by the facilities, regardless of which class each customer is in. The utility therefore sizes and constructs primary lines and substations to accommodate the anticipated coincident peak.

\* \* \*

Because the demands of multiple classes on primary lines and substations more closely correspond to CP rather than NCP demands, the Commission agrees with Staff that the most reasonable, cost-based approach is to allocate the cost of this equipment according to the collective peak demands of all rate classes.

*Cent. Ill. Light Co., et al.*, Dockets 09-0306 *et al.*, Order (Apr. 29, 2010), p. 237.

Although as described by Mr. Schonhoff, the issue presented in this case deals with primary distribution line costs separate and apart from those associated with substations (which Mr. Schonhoff argues is a meaningful distinction from a cost causation standpoint), the resolution presented is reasonable, as a whole, considering the evidence presented in this docket and reflecting on the possibility that decisions rendered in a previous docket may affect the outcome of the issue in this proceeding. And as stated above, rate classes DS-1, 2, 3 and 4 all receive less allocation of costs under the Modified Primary Line Allocator than had the Commission adopted the CP method advocated by Staff.

### **Conclusion**

AIC recommends the Commission adopt the Modified Primary Line Allocator agreed upon by Staff and AIC as presented on AIC Cross Exhibit 3. Although AIC advocated in testimony the adoption of the NCP method for all classes, the Company recognized the inherent disadvantages of the CP method for allocating primary distribution line costs to DS-5 and DS-6

customers. The Modified Primary Line Allocator addresses these concerns and, relevant to these classes in particular, resolves, for this proceeding, a debate between Staff and AIC that has been ongoing since at least 2009. Adoption of the Modified Primary Line Allocator also allocates to the remaining classes (DS-1, 2, 3 and 4) less primary distribution lines costs than would have been derived under application of the CP Method, which may have been a plausible, if not a likely, outcome on the issue, given Staff's preference for adoption of the CP method and the recent Commission rulings on the topic. The Modified Primary Distribution Line allocator, as a whole, is reasonable and the Commission should adopt it.

## **2. Allocation of Single-Phase and Three-Phase Primary Facility Costs**

This issue generally deals with the extent to which customers who take service at different voltage levels (primary versus secondary) should be allocated costs of facilities (single phase and three phase) that they may or may not use. Although the primary distribution system consists of facilities delivering either single or three phase service, IIEC witness Mr. Stephens argues that the single-phase facilities exist to serve "exclusively or nearly exclusively" secondary voltage customers; thus, those customers should be allocated more of the related costs. (IIEC Ex. 1.0 (Stephens Dir.), p. 5.)

In furtherance of this view, Mr. Stephens presents two recommendations for the Commission to consider relative to a potential segregation of primary distribution system costs into single and three phase components: (1) Mr. Stephens recommends the Commission direct AIC to participate, with Commonwealth Edison (ComEd), in a workshop or investigation designed to review the merits of separating and allocating the costs of these facilities (and, if necessary, conducting further discussions on a utility-specific basis) and, (2) further recommends the Commission, in this case, assign 10 to 20% of primary voltage costs to secondary customers,

in recognition that single-phase facilities are used primarily to serve secondary customers. (*Id.* at 13–14.)

Mr. Stephens’ recommendations should be rejected. On December 18, 2013, the Commission issued an Order in Docket 13-0386, in which it recognized the inherent complexities in conducting the studies that would be required to determine or segregate costs by phase of service and further declined to order parties to conduct workshops or further investigations on this topic. *Commonwealth Edison Co.*, Docket 13-0387, Order (Dec. 18, 2013), pp. 50-51. The Commission should make the same finding here. The Commission also rejected Mr. Stephens’ recommendation—similar to the one offered in this matter—to assign 10 to 20% of primary distribution system costs to secondary voltage customers. *Id.* at 18. So too should the Commission decline Mr. Stephens’ recommendation in this matter, for the reasons discussed in further detail below.

**a. Workshop on the Future Allocation of Single-Phase and Three-Phase Primary Facility Costs**

**The Commission declined to order the parties to conduct workshops in Docket 13-0387 and should reach the same conclusion here.**

In his rebuttal testimony, Mr. Stephens clarified his initial recommendation by describing a two-step workshop and investigation process. (IIEC 3.0C (Stephens Reb.), p. 12.) In his proposed first step of the process, participants would review the merits of separating and allocating single phase and three phase costs. (*Id.*) Mr. Stephens believes this step could be conducted jointly with ComEd, because the conceptual discussions would be “similar enough.” (*Id.*) The second step of the proposed process would involve discussions on how to quantify and segregate specifically the single-phase costs. (*Id.*) This proposed step, “which may not be necessary if the parties conclude there is no merit to such segregation,” could be AIC-specific.



(*Id.*)

The Commission rejected a similar workshop recommendation offered by IIEC in Docket 13-0387. *Commonwealth Edison Co.*, Docket 13-0387, Order, pp. 50-51. Despite recognizing that ComEd has the capability to perform the required analysis, the Commission recognized that such studies are “highly complex” and that “segmenting the cost allocation by phase of service does not appear to be practicable.” *Id.* The Commission also recognized that “[t]here is also some question as to whether any attempt to segment according to phase of service would be equitable or accurate.” *Id.* In addition, the Commission found that examining allocations by phase of service would require determining the path of service for specific customers, which “is not the industry norm and can easily become an unsustainable process because the distribution system is constantly changing.” *Id.* Given these concerns, the Commission rejected IIEC’s proposal. *Id.*

And this result should be deemed fatal to IIEC’s recommendation in this case. As recognized by Ameren witness Mr. Schonhoff, the Commission’s decision in Docket 13-0387 would appear to resolve this issue in both proceedings, since it eliminates the first step of IIEC’s two-step proposal. (Ameren Ex. 8.0 (Schonhoff Reb.), p. 26.) Process discussions aside, Mr. Schonhoff also recognizes many of the same substantive issues that gave the Commission pause in ComEd’s case, noting the complexities of the primary distribution system and the potential impracticality of “deconstructing costs.” (*Id.* at 27:568–69.) Simply stated, given this complexity and the result of, and findings in, the ComEd docket, the Commission should decline to order AIC to participate in workshops on this topic. Even though the second step of IIEC’s suggested two-step process would appear to envision (or tolerate) a utility-specific examination, based on the Order in Docket 13-0387, it appears as though the Commission has determined that

there is no merit in IIEC's recommendation at this time. The Commission should reject IIEC's recommendation, which, if approved, would require AIC to participate in workshops examining potential segregation of the primary distribution system into single and three phase components.

**b. Allocation of Single-Phase Primary Facility Costs to Secondary Voltage Customers**

**The Commission should reject IIEC's recommendation to assign 10%–20% of primary voltage costs to secondary customers because the record does not support the specific allocation percentages recommended by IIEC.**

As explained by AIC witness Mr. Schonhoff, “[t]he record simply does not contain a factual basis for any specific percentages Mr. Stephens recommends.” (Ameren Ex. 8.0 (Schonhoff Reb.), p. 2:35–37.) Nowhere in the record does Mr. Stephens explain why he recommends this specific ten-point spectrum, or why a 10% or a 20% allocation is more reasonable than other alternatives.

Mr. Schonhoff explains that determining the appropriate amount of costs of the primary distribution system to assign to secondary customers, if any, “involves a complex examination of system assets, which has not been conducted.” (*Id.* at 2:34–35.) And “deconstructing costs [in the way Mr. Stephens’ would suggest] might not be practical.” (*Id.* at 27:568–69.) In short, “[t]he unknown facts purportedly driving Mr. Stephens’ proposal should cause the Commission to exercise caution in approving any immediate adjustment based on Mr. Stephens’ recommendation in this proceeding.” (*Id.* at 27:569–71.)

At its core, Mr. Stephens’ argument appears to be predicated upon the belief that single-phase asset costs contribute at least 10% of the costs of the primary distribution system and that secondary customers using only those assets should pay at least those costs. (*See* IIEC Ex. 1.0, p. 14:283–95.) But even this is based on speculation. During cross-examination, Mr. Schonhoff was not able to estimate or confirm the percentage of secondary customers taking single-phase

service. (Tr. 54:2–55:4.)

In addition, “[s]imply stating that these single phase primary distribution line costs should be allocated to the ‘secondary’ customers isn’t quite as simple or straightforward, as Mr. Stephens describes.” (Ameren Ex. 8.0, p. 27:583–85.) Specifically, “[t]he Company doesn’t currently have class demands segregated by single phase and three phase, as would be required for such adjustment.” (*Id.* at 27:574–75.) In other words, “[w]hile Mr. Stephens’ proposal presents interesting ideas, the proposal is still incomplete and could result in inaccurate allocations of costs amongst the DS-1 and DS-2 classes, even though the proposal would effectively remove costs from the DS-3 and DS-4 classes.” (*Id.* at 27:585–88.)

### **Conclusion**

Based on the evidence presented in this matter and consistent with the decision reached in Docket 13-0387, the Commission should (1) decline to adopt IIEC’s recommendation that AIC participate in future workshops designed to review the merits of separating and allocating the costs of single phase and three phase facilities and (2) decline to assign 10% to 20% of primary voltage costs to secondary customers as a result of this case.

### **3. Allocator for Non-Meter AMI General and Intangible Plant**

AIC proposes to use a customer-related allocator, instead of a labor-related allocator, for General and Intangible (G&I) plant investments that AIC intends to implement as part of the Commission-approved AMI Plan. (Ameren Ex. 2.0 (Schonhoff Dir.), pp. 15-16.) The proposed G&I AMI plant asset allocator is FERC Account 370-Meters (CUST370)—the same allocator that AIC plans to use for AMI meter investments and the same allocator that AIC currently uses for meter-reading expense (*Id.*; Ameren Ex. 8.0 (Schonhoff Sur.), p. 30.) The specific non-meter G&I AMI plant investments that would be allocated using the CUST370 allocator include

the purchase and installation costs for the AMI communication network and the Information Technology (IT) assets. (Ameren Ex. 5.0 (Rev.) (Schonhoff Reb.), p. 34.) These assets—the communications network and IT investments—are necessary for the AMI meters to be fully functional. (Ameren Ex. 8.0 (Schonhoff Sur.), p. 29.) Both Staff and IIEC support AIC’s proposed use of the same allocation factor, FERC Account 370-Meters, for these G&I plant costs. (ICC Staff Ex. 1.0C (Rukosuev Dir.), pp. 13–17; IIEC Ex. 1.0 (Stephens Dir.), p. 4.)

The AG, however, disagrees with AIC’s proposal—it would prefer that AIC’s G&I AMI plant be allocated using a labor-related allocator, like any other typical G&I plant asset, such as a general office building. But the AMI communications network and the related IT assets do not function like typical G&I plant assets—they function as an extension of the AMI meters. All three components—the meters, the communications network, and the IT plant assets—need to be operational for customers to realize any benefits. The AG’s witness, Mr. Scott Rubin, already agrees that the costs of purchasing and installing AMI meters should be allocated in the same manner as traditional metering plant investment. (AG Ex. 1.0 (Rubin Dir.), p. 7; Ameren Ex. 5.0 (Rev.), p. 34.) It is not appropriate to use a different labor-based allocator for the other integrated components.

**The connectivity of the planned AMI meter and non-meter investments supports the use of the same customer-based cost allocator for G&I AMI plant assets.**

“Generally, the Commission prefers to allocate costs among the various classes as close to the cost of serving each class as is reasonably possible and/or appropriate. The purpose of doing so is to assign costs to those who cause them.” *Cent. Ill. Light Co. et al.*, Dockets 07-0585 *et al.*, Order (Sept. 24, 2008), p. 265. Here, the communication network and related IT hardware and software assets support the metering function. (Ameren Ex. 2.0, pp. 15–16.) They are, in fact, essential to the functionality of the AMI meters. (Ameren Ex. 8.0, pp. 29–30.) This is why

AIC considers the communication network and IT related assets to be extension of the AMI meters, and not analogous to other types of general plant. (*Id.*) And this is why, for each component of the AMI network, the cost causer is the end user of the meter—the customer. (*Id.* at 31.) Given the codependency of the meter and non-meter AMI plant investments, it is not appropriate to treat one component (*e.g.*, meters) any differently for cost allocation purposes than the other components. (*Id.* at 30.) That is why AIC’s proposed customer-based allocator—FERC Account 370-Meters (CUST370)—is superior; it allocates future anticipated costs related to the AMI Plan in a manner that resembles the way these costs will be incurred, which is a fundamental goal in any cost of service study.

AG witness Mr. Rubin agrees that the AMI meter cannot be fully functional without being connected to an AMI communication network. (AIC Cross Ex. 1 (AIC-AG 1.07).) He agrees that the AMI communication network generally cannot be fully functional without the supporting IT infrastructure. (AIC Cross Ex. 1 (AIC-AG 1.08).) And he agrees that the costs of purchasing and installing meters should be allocated in the same manner as legacy metering plant. (AG Ex. 1.0, p. 7.) But despite those concessions, Mr. Rubin proposes to use an allocator that results in a substantially lower allocation of G&I AMI plant costs to the DS-1 Residential class and a significantly larger allocation of these same costs to other classes, including the DS-5 Lighting class. (Ameren Ex. 5.0 (Rev.), p. 34.) This is irrational; the percentage of non-meter G&I AMI plant costs allocated to DS-1 should align with the percentage of DS-1 AMI meter costs.

Mr. Rubin criticizes AIC for not performing a functionalization analysis for the specific AMI assets at issue. (AG Ex. 2.0 (Rubin Reb.), p. 12.) But that analysis is not necessary, given the relationship amongst the meters, the network and the IT plant at issue. (Ameren Ex. 8.0, p.

31.) That one component of the AMI structure (*e.g.*, meters) cannot perform any of the identified functions without the other two components makes these specific G&I assets not analogous to Mr. Rubin’s office building example. (*Id.*) Whether a specific area in an office building can perform its day-to-day functions does not hinge entirely upon the functionality of the other specific areas in the same building. (*Id.*) But in the case of AMI network, as Mr. Rubin concedes, the functionality of the meters is entirely dependent upon the functionality of the other associated assets.

**The planned AMI non-meter investments should be allocated based on principles of cost causation, not an analysis of estimated AMI benefits.**

Mr. Rubin states that the fairness of AIC’s proposed cost allocation should be judged against his analysis of the AMI Plan’s estimated benefits and the expected varied functionality of the AMI network, once all the components are operational. (AG Ex. 2.0, pp. 11–12.) But the focus should be on the cause of the AMI costs that AIC will be incurring in the next several years, not the estimated benefits that AIC has projected to materialize over the next 20 years. (Ameren Ex. 8.0, p. 31.) If you cannot have a fully functional AMI meter without the communications network and IT assets, that fact alone should end the inquiry—each customer needs a meter, the network, and the IT hardware and software. There is no need to delve into a theoretical debate about the percentage of projected benefits that each customer class might receive over the next 20 years. As Mr. Rubin himself acknowledges, the actual benefits received by a utility’s customers “will be different for each utility, depending on customer characteristics and the specific metering equipment and related infrastructure that is used.” (AG Ex. 1.0, p. 6.)

But even if a review of estimated customer benefits was an appropriate method for assigning costs, Mr. Rubin’s analysis is flawed in this respect—it is driven by his subjective designations of a “function” for the projected costs and benefits of the AMI Plan. These

designations overlook the practical problem that Mr. Rubin’s “general” functions, such as demand response, outage management, reduction in unaccounted for energy, and consumption on inactive meters, require all three components of the AMI system to be fully operational for these benefits to be realized. (Ameren Ex. 8.0, p. 32.) Mr. Rubin cannot point to a single state commission that has accepted a similar analysis of projected benefits as a basis for allocating AMI costs. And the only other case where Mr. Rubin has submitted testimony on actual AMI benefits and cost allocations remains pending. (AIC Cross Ex. 1 (AIC-AG 1.13-1.14).) In the absence of other authority, Mr. Rubin’s “function” benefits analysis is too novel to be adopted.

The primary beneficiary of AMI, whether the attention is on demand response benefits or manual meter reading savings, is the end user of the AMI meter. And much like the human arm cannot fully function without the central nervous system, the AMI meter cannot fully function without the remainder of the communications network and the related IT hardware and software assets. The cost allocation of the G&I AMI plant and the AMI meters should go hand in hand. AIC requests that the Commission approve AIC’s proposed allocator (CUST370) for these assets.

### **III. Revenue Allocation**

#### **A. Resolved Issues**

##### **1. Revenue Allocation Methodology – Rate Zone Allocators**

AIC proposed several changes to the factors used to allocate costs to each of AIC’s three rate zones for purposes of establishing a revenue requirement for each rate zone in annual proceedings to update AIC’s electric formula rate. (*See* Ameren Ex. 3.0 (Martin Dir.).) Included in the proposed changes were modifications to rate base allocation factors for General and Intangible Plant, Cash Working Capital, Materials and Supplies, Customer Advances, Customer

Deposits and Other Post-Employment Benefit Liability. (*Id.* at 4–7.) AIC also proposed to modify expense allocation factors for Customer Accounts Expense, Customer Services and Information Expense, Administrative and General Expense, Amortization of Regulatory Assets and Other Taxes. (*Id.* at 7–12.) Staff requested additional information explaining the need for these proposed allocation modifications, and an analysis of the effects of these proposed modifications. (ICC Staff Ex. 3.0C (Everson Dir.), pp. 2, 4.) In rebuttal, AIC prepared two exhibits demonstrating the impact of the proposed changes and explained the rationale for each of the proposed changes. (Ameren Exs. 6.0 (Martin Reb.); 6.1, 6.2.) Persuaded by this additional information, Staff agreed that the proposed modifications to the rate zone allocation factor, as identified in AIC’s direct case, should be adopted by the Commission because they more accurately reflect current operations. (ICC Staff Ex. 6.0 (Everson Reb.), p. 2.) No other party addressed these allocators, and therefore these proposed changes are not contested.

## **B. Contested Issues**

### **1. Revenue Allocation Methodology – Rate Moderation**

#### **a. Treatment of Electric Distribution Tax**

The Electric Distribution Tax (EDT) is a term used to describe the tax assessed on utilities under the Public Utilities Revenue Tax Act (PURA). (Ameren Ex. 1.0 (Rev.) (Jones Dir.), p. 18.) The tax is assessed on utilities based on kWh distributed to customers in a year, based on a schedule of differing tax rates for seven kWh usage blocks. (*Id.*) In Dockets 09-0306 *et al.*, the last proceeding in which the Commission approved a rate design for electric delivery rates, the Commission approved AIC’s proposal to allocate EDT based on usage (kWh), rather than distribution plant in service. *Cent. Ill. Light Co., et al.*, Dockets 09-0306 *et al.*, Order (Apr. 29, 2010), p. 243. The change in the EDT allocation factor resulted in responsibility for this tax



expense shifting from smaller to larger customers. The shifting of revenue responsibility for EDT, in turn, led the Commission to adopt a rate mitigation approach that included EDT—no customer class or subclass would receive an increase greater than 150% of the system average increase. *Id.* at 295.

This rate mitigation methodology approved in Dockets 09-0306 *et al.*, remains in effect today, and has been applied in AIC's first three formula rate cases, Dockets 12-0001, 12-0293 and 13-0001. And as a result, the rates for the DS-4 class currently are providing electric revenue levels below their stated cost of service. (Ameren Ex. 1.0 (Rev.), p. 17.) This revenue gap exists primarily because there has not been meaningful movement of the DS-4 class towards paying the average cost-based EDT \$/kWh price. (*Id.* at 18, 21.) The current shortfall in electric revenues for the DS-4 class, based on the disparity in EDT prices, is \$13 million (based on AIC's proposed revenue requirement in Docket 13-0301). (*Id.* at 23.) Whereas the DS-4 class provides 10%, or \$4.2 million, of EDT revenue, the kWh sales from DS-4 represent 41.7% of total sales, or \$17.5 million. (*Id.* at 22–23.) This disparity exists for each DS-4 subclass; DS-4 customers served from a Primary, High Voltage, and +100 kV Supply Voltages represent 7.0%, 17.4%, and 17.3% of total sales, yet contribute only 2.8%, 5.7% and 1.5% of EDT revenue. (*Id.* at 23.) In addition, EDT prices and revenues for each DS-4 subclass still differ across rate zones. (*Id.* at 19, 22.) In Docket 11-0279, prior to electing to participate in EIMA, AIC proposed modifications to the revenue allocation and rate mitigation approach to quicken the transition to a uniform EDT \$/kWh price across all customer classes and subclasses; however, that proceeding was withdrawn before the Commission could approve AIC's proposals. *Ameren Ill. Co.*, Docket 11-0279, Proposed Order (Nov. 15, 2011), pp. 179, 185, 198.

No party to this proceeding challenges the continued allocation of EDT by usage (kWh

sales). Nor does any party challenge AIC's proposal that each customer class and subclass should pay the same average EDT price, eventually. The contested issue amongst the parties is whether to continue to include EDT in any Commission-approved rate mitigation plan, and how quickly the customer classes should move to paying the same average EDT rate.

#### **b. Rate Mitigation Alternatives**

The Commission's stated preference is to design cost-based delivery rates that collect revenues from a customer class that are aligned to the class's cost of service. *See, e.g., Cent. Ill. Light Co., et al., Dockets 09-0306 et al., Order (Apr. 29, 2010), pp. 228, 232, 237, 243.* "Any rate design that includes recovering less than the cost of service from a customer class undoubtedly creates the need for one or more of the other customer classes to shoulder the burden of the revenue shortfall. In other words, a subsidy is created." *Cent. Ill. Light Co., et al., Dockets 06-0070 et al., Order (Nov. 11, 2006), p. 175.* In *Dockets 09-0306 et al.*, the Commission held that "[c]ontinued movement toward cost-based rates and the elimination of inter- and intra-class subsidies should be considered a priority in [AIC's] next rate filing." *Cent. Ill. Light Co., et al., Dockets 09-0306 et al., Order (Apr. 29, 2010), p. 260.*

The preference for cost-based delivery rates does not mean, however, that rate mitigation is never appropriate. There are instances when gradualism in designing a phase-in of a rate increase for a particular class is warranted to avoid rate shock. In Docket 07-0165, for example, the Commission designed rates for BGS-1 and BGS-2 to "provide rate relief to those customers who have faced the largest increases, particularly electric space-heating customers, while ensuring that other customers groups are not unduly impacted by these rate mitigation measures." *Ill. Comm. Comm'n on its own Mtn., Docket 07-0165, Order (Oct. 11, 2007), p. 27.* The Commission believed that a "modest movement of rates away from costs is justified" and

“necessary to provide a reasonable level of relief to customers who have faced the largest increases while avoiding undue impact on other customers in the residential and small non-residential classes.” *Id.* at 28. Similarly, in that same proceeding, the Commission found that the rate limiter “provides transitional relief to ratepayers who face the largest increases, while ensuring that other customer groups are not unduly impacted by these rate mitigation measures.” *Id.* at 39. The Commission found that the rate limiter proposal did not reallocate revenue responsibility between DS-3 and DS-4, allowed rates to track costs on an interclass basis, and avoided shifting revenues between two customer classes that are supplied by different auction products and have different switching environments. The Commission emphasized that “the modifications to intra-class rate design approved in this Order are in response to the unusual circumstances outlined in the record in this docket” and “not intended to create any presumptions in future dockets or to signal an intention to disregard cost of service when setting rates.” *Id.*

In Dockets 09-0306 *et al.*, the Commission expressed concern about immediately assessing DS-4 customers the full average EDT rate, and instead chose to limit the increase to the class, and supply voltage subclass, to no more than 1.5 times the overall average system increase, including the effect of EDT. (Ameren Ex. 1.0 (Rev.) (Jones Dir.), p. 24.) That concern also was expressed in the Proposed Order in Docket 11-0279. *Ameren Ill. Co.*, Docket 11-0279, Proposed Order (Nov. 15, 2011), pp. 185–186 (appropriate to include EDT in rate mitigation). Consequently, in this proceeding, AIC is not proposing that all customer classes pay the same average EDT rate, immediately. Instead, AIC proposes to limit movement towards the average cost subject to the overall revenue allocation constraint. (Ameren Ex. 1.0 (Rev.), pp. 23–24.) But to take a proactive approach to eliminating the existing EDT subsidies, AIC proposes movement to a uniform EDT rate at a much quicker pace than applying a simple constraint

multiple (*e.g.*, 1.5 times the system average increase). (*Id.* at 24.) The percentage level of delivery service increase required for DS-4 customers, especially those served from the +100 kV Supply Voltage category, to achieve equalized EDT pricing is greater than what would be allowed under a 1.5 times average, or even a 10% minimum increase. (*Id.* at 23.) Looking at just the AIC average of DS-4 +100 KV customers, it would take 13 iterations of 10% increases to achieve uniform EDT values. (*Id.*)

With that backdrop, AIC initially proposed a three-tiered approach for rate mitigation—the impact mitigation constraint would be changed to be the *greater of*:

1. 0.05 ¢/kWh;
2. 10%; or
3. a constraint multiple of the system average increase based on a sliding scale starting at 1.5 times system increase for overall increases less than 10%, and reduced by 0.0125 for each percentage point of average system increase greater than 10%, but not less than a factor of 1.0.

(Ameren Ex. 1.0 (Rev.), p. 14.) If the constraint factor reaches 1.0, an across-the-board percentage change to all rate classes (with the exception of any ¢/kWh movement allowed under the first constraint) would be employed. (*Id.*) This sliding scale ensures that, as the system average increase exceeds 10%, the class specific increases deviate less and less from the system increase and there are not unduly higher increases to specific classes. (*Id.* at 15–16.) In addition, the applicable revenue allocation procedure would be applied to each DS-3 and DS-4 supply voltage subclass independently—for example, if a 10% increase is determined for DS-4 under the present method, each supply voltage subclass would be allocated a 10% increase. (*Id.* at 14.)

These modifications are intended to correct the following inadequacies in the existing revenue allocation methodology:

1. Some rate classes pay such a nominal amount of Delivery Service and Distribution Tax charges that even a relatively small ¢/kWh movement could

result in levels that exceed the current percentage thresholds—thwarting movement towards cost-based rates—even though greater movement would result in relatively immaterial total bill impacts;

2. In the event of an overall system rate decrease, all rate classes still receive a decrease, even though modest rate increases to some classes would permit movement towards cost-based rates with tolerable total bill impacts; and
3. In the event of material Rate Zone average increases, the constraint multiple of 1.5 times system average may result in an increase to a class that is too great, resulting in undue bill impacts.

(Ameren Ex. 1.0 (Rev.), p. 12.) The 0.05 ¢/kWh limitation, in particular, is necessary to allow for elimination of the EDT subsidies within the next three or fewer formula rate update proceedings. (*Id.* at 24.) Although the 0.05 ¢/kWh limitation would result in percentage increases to delivery rates in excess of 20% for certain DS-4 subclasses, the total bill impact, as a point of comparison and perspective, would still be relatively minor. (Ameren Exs. 1.0 (Rev.), p. 13; 4.0 (Rev.) (Jones Reb.), p. 22; 7.0 (Jones Sur.), p. 12.)

Other parties to this proceeding have proposed different treatment of EDT and different rate mitigation approaches. The AG’s witness Mr. Rubin advocates elimination of the EDT subsidies at the end of this proceeding (*i.e.*, for delivery rates that will be effective in the January 2015 billing period). (AG Exs. 1.0 (Rubin Dir.), pp. 8–11; 2.0 (Rubin Reb.), pp. 1–2.) But Mr. Rubin’s testimony does not identify, or provide record support for, a rate mitigation alternative that does not include the impact of EDT; the tacit assumption being that the AG does not support any rate mitigation. The IIEC, on the other hand, initially proposed to eliminate entirely the 0.05 ¢/kWh limitation, which would allow the EDT subsidy to exist for many more years: 13 years on average across AIC, 19 years in Rate Zone 1, 7 years in Rate Zone II, and 17 years in Rate Zone III. (Ameren Ex. 4.0 (Rev.), pp. 23–24.) On rebuttal, IIEC proposed an alternative rate mitigation “middle ground” approach: increasing the 10% criterion to 20% and the 1.5 times system average increase criterion to 1.75. (IIEC Ex. 3.0C (Stephens Reb.), p. 20.) But even with

a 20% annual increase, it would take Rate Zone I 10 iterations, Rate Zone II 4 iterations and Rate Zone III 9 iterations to achieve a uniform EDT Cost Recovery charge, assuming no other costs changed over the duration of those iterations for DS-4 +100 kV supply customers. (Ameren Ex. 7.0, p. 14.) Staff supported AIC's rate mitigation approach in direct, finding it reasonable given the slow movement towards cost-based rates for the DS-4 class to date. (ICC Staff Ex. 1.0C (Rukosuev Dir.), p. 22.) On rebuttal however, Staff flipped to support the initial position of IIEC, believing the potential percentage increase to certain DS-4 subclasses would be too great. (ICC Staff Ex. 4.0 (Rukosuev Reb.), pp. 6–7.) There is nothing in the record to indicate whether Staff would support IIEC's alternative or the AIC alternative (discussed below).

The sole criticism of AIC's inclusion of a 0.05 ¢/kWh criterion is the *percentage* electric delivery rate increases that certain DS-4 classes would receive. Granted, had the Commission applied AIC's three-tiered criteria to AIC's proposed revenue requirement in Docket 13-0301, two DS-4 +100 kV subclasses would have received delivery rate increases more than 100%. (Ameren Ex. 4.0 (Rev.), p. 16.) But two points cannot be overlooked—the increase in rates is driven principally by the correcting for the under-recovery of EDT expense from the DS-4 class, and the percentage increases for those two DS-4 subclasses are a function of how little of their share of the EDT these DS-4 customers currently pay. (*Id.* at 14–18; Ameren Ex. 7.0, p. 29.) Prior to Dockets 09-0306 *et al.*, the EDT amount paid by DS-4 +100 kV supply customers was close to zero. (Ameren Ex. 7.0, p. 34.) In Docket 09-0306 *et al.*, the Commission permitted a small EDT change to be implemented. (*Id.*) The average ¢/kWh under rates proposed in Docket 13-0301 for the DS-4 +100 kV subclass are 0.021, 0.119, and 0.028 respectively for Rate Zones I, II, and III, whereas DS-4 Primary customers realize average ¢/kWh of 0.816, 0.750, and 1.247 respectively. (Ameren Exs. 4.0 (Rev.), p. 17; 7.0, p. 29.) Subsequent changes to these nominal

amounts to arrive at the uniform EDT rate for these DS-4 customers will result in large percentage changes to delivery rates, if the Commission wants to eliminate the EDT subsidy at a more meaningful pace. Nor does IIEC explain why it would be fair and reasonable to perpetuate subsidies for certain DS-4 subclasses at a longer pace than other DS-4 customers; yet that is a noticeable shortcoming of using only percentage rate change limitations, even under IIEC's modified proposal. (Ameren Exs. 4.0 (Rev.), pp. 17, 19; 7.0, pp. 29–30.)

In Docket 11-0279, AIC recommended that the Commission include EDT expense within the rate moderation methodology, but not apply the revenue allocation constraints on a subclass level, and phase-out the EDT subsidy for all DS-4 customers at the end of a three-year period. *Ameren Ill. Co.*, Docket 11-0279, Proposed Order (Nov. 15, 2011), pp. 180–81, 192–93. That proposal, like the AIC's proposal in this proceeding, was intended to make more meaningful progress in eliminating the existing subsidy and leveling of EDT prices for all customers. (Ameren Ex. 4.0 (Rev.), p. 22.) The Proposed Order ultimately agreed with AIC's proposals. *Ameren Ill. Co.*, Docket 11-0279, Proposed Order (Nov. 15, 2011) at 185–86, 198. Had that proceeding not been withdrawn, the third and final iteration to uniform EDT charges would have been set to take effect in February 2014. (Ameren Ex. 4.0 (Rev.), p. 21.) Here, AIC proposes a rate mitigation approach that would allow for uniform EDT charges by the January 2016 or January 2017 billing period. Given the duration that the EDT subsidy has existed and the amount of movement to cost-based rates that still needs to occur, AIC's initial proposal provides the proper balance between the movement to full cost recovery and mitigation of bill impacts; progresses away from inter-class subsidies; and properly considers principles of gradualism and

avoidance of rate shock against other rate design considerations.<sup>2</sup>

#### **IV. Rate Design**

##### **A. Resolved Issues**

##### **1. Methodology for Setting Uniform Charges Across Rate Zones**

To satisfy the Commission-endorsed goals of rate uniformity across rate zones and cost-based rates, AIC proposed a new methodology designed to charge uniform distribution delivery charges: (i) in a customer class in two or more rate zones, if each rate zone's individually calculated cost of service (excluding the EDT) and prices are within 10% of the combined average of one or two additional rate zones; or (ii) if charges across rate zones "cross-over" one another, meaning the pricing ranges overlap one another. (Ameren Ex. 1.0 (Rev.) (Jones Dir.), pp. 8, 27–30.) Application of this methodology would result in uniform pricing for (i) DS-1, Rate Zones I and II, (ii) DS-2, Rate Zones I and III, (iii) DS-3, primary supply voltage for Rate Zones I and III, and (iv) DS-5 Rate Zones II and III after miscellaneous revenues unique to the lighting class are deducted. (*Id.*) Even though costs for DS-4 primary supply voltage for Rate Zones I and III are within 10%, average prices for this Rate Zone are not within 10%, and, therefore, independent pricing will continue. (*Id.*) Additionally, all prices for the newly formed DS-6 class, would be set uniformly even though they fall slightly outside this 10% bandwidth. (*Id.*) Staff found this proposed rate design methodology reasonable and recommended that the Commission approve it. (ICC Staff Ex. 2.0 (Harden Dir.), pp. 4, 7.) No other party to this proceeding has objected to these rate design proposals, and therefore they are not contested.

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<sup>2</sup> If the Commission decides that a longer phase-in to cost-based rates is desired, the 0.05 ¢/kWh criterion could be lowered to 0.025 ¢/kWh. (Ameren Ex. 7.0, pp. 14, 35; CG Cross Ex. 1.0) This modification would allow for a uniform EDT rate in fewer formula rate iterations (five) than IIEC's alternative rate modification.



## **2. Use of Average Cost Data for DS-3 and DS-4 +100 kV Customers**

To correct a pricing disparity and a lack of robust data for setting rates for the DS-3 +100 kV customers, AIC proposed to set prices for this class based on the average cost data for both the DS-3 and DS-4 +100 kV subclasses. (Ameren Ex. 1.0 (Rev.) (Jones Dir.), pp. 30–32.) This calculation would take the sum of the DS-3 and DS-4 +100 kV demand-related revenue requirement net of transformation charge revenue divided by the sum of DS-3 and DS-4 +100 kV billing demands for all rate zones, resulting in the DS-3 +100 kV distribution delivery charge. (*Id.*) Based on Docket 13-0301, this equation would yield a price of \$0.314/kW for the DS-3 +100 KV customers. (*Id.*) Using the DS-4 subclass as a proxy makes sense because many DS-3 customers have been DS-4 customers in the past. And this proposal addresses the lack of data issue because there are several DS-4 +100 kV customers with billing demands exceeding 1,000,000 kW/month. (*Id.*) Staff found this proposal to be the “best option” for improving rate continuity. (ICC Staff Ex. 2.0 (Harden Dir.), p. 10.) For DS-4 +100 kV Distribution Delivery Charges, AIC proposes a uniform rate across rate zones equal to the weighted average price established in Docket 13-0301, resulting in a rate zone weighted average price of \$0.0236/kW. (Ameren Ex. 1.0 (Rev.), p. 32.) No party has contested these proposals.

## **3. DS-5 Fixture and Distribution Delivery Charges**

Application of the uniformity methodology for the DS-5 fixture charges and distribution delivery charges should result in uniform prices between Rate Zones II and III in the next formula rate update proceeding. (Ameren Ex. 1.0 (Rev.), (Jones Dir.), pp. 33–34.) Currently, the Rate Zone I fixture charges are below those of Rate Zones II and III. (*Id.*) To achieve uniformity, AIC recommends that any rate increase for Rate Zone I be applied to fixture charges until they are uniform with the fixture charges for Rate Zones II and III. (*Id.*) Fixture charges

when combined with the distribution delivery charge fall just outside the 10% range. (*Id.*) However, when miscellaneous revenue unique to the lighting class is deducted, as it is for the revenue requirement, the costs are within 10%. (*Id.*) And even though prices between the rate zones are not within 10%, when the revenue requirement changes are applied to Rate Zones II and III, the new prices cross over one another. (*Id.*) Therefore, because costs are within 10% and the prices “cross over,” the fixture and distribution delivery charges for the DS-5 class in Rate Zones II and III should be uniform after the next update proceeding. (*Id.*) Staff has agreed with AIC’s proposal for the DS-5 class. (ICC Staff Ex. 2.0 (Harden Dir.), p, 11.) No other party has challenged AIC’s analysis of its application of the uniformity methodology to the DS-5 Fixture and Distribution Delivery Charges, and therefore it is uncontested.

#### **4. Electric Uncollectible Recovered in Base Rates**

AIC is proposing to determine the amount of uncollectibles recovered in base rates by condensing the “included in rates” value into a single non-residential “Uncollectible Recovered in Base Rates” value for non-residential customers (*i.e.*, eliminating calculation of the value by standalone non-residential class). (Ameren Ex. 1.0 (Rev.) (Jones Dir.), p. 34–35.) This proposal is a result of a Rider EUA – Electric Uncollectibles Adjustment tariff change, which only requires non-residential average class level data. (*Id.*) Adoption of the modified rate zone allocator, proposed by AIC, from one that calculates the ratio of Account 904 expense for each rate zone to the total Account 904 expense to a customer weighted value will move the “Uncollectible Recovered in Base Rates” toward uniformity for residential and non-residential customers. (*Id.*) Staff has agreed with AIC’s proposal. (ICC Staff Ex. 2.0 (Harden Dir.), pp. 17–18.)

## **5. Allocation of Reconciliation Balance to Electric Distribution Tax**

A portion of the formula rate reconciliation balance, whether in the form of a credit or charge, currently is allocated to EDT. (Ameren Ex. 1.0 (Rev.) (Jones Dir.), pp. 25–26.) This balance is expected in future update proceedings to be a charge, which would increase the amount of EDT expense that will be recovered from customers. (*Id.*) Continuing to allocate a portion of the reconciliation charge to EDT in the current manner would exacerbate efforts to eliminate the existing DS-4 EDT subsidy and transition to an equalized EDT rate for all classes. (Ameren Exs. 4.0 (Rev.) (Jones Reb.), pp. 4–6; 7.0 (Jones Sur.), pp. 4–7.) Since EDT expense has a unique underlying cause (the amount of tax paid to the State for energy usage), AIC initially proposed a rate design that would no longer allocate a portion of the reconciliation balance to EDT. (Ameren Exs. 1.0 (Rev.), pp. 25–26; 4.0 (Rev.), pp. 4–6.) Although the reconciliation balance would include any true-up amounts related to EDT, those amounts were not expected to be significant for this particular cost item, given that the basis for the cost would exist independent of AIC’s participation in the State’s investment infrastructure program. (Ameren Ex 7.0, p. 5.)

Staff initially disagreed with AIC’s proposal and found it appropriate to continue the current method of allocating a portion of the reconciliation to the EDT. (ICC Staff Exs. 1.0C (Rukosuev Dir.), p. 23; 4.0 (Rukosuev Reb.), pp. 3–4.) To resolve a contested issue, AIC proposed to allocate the EDT reconciliation amount to rate zones based on kWh delivered in the test-year billing determinants. (Ameren Ex. 7.0, p. 7.) Staff has agreed to this proposal as embodied in AIC Cross Exhibit 1 (AIC-Staff 9.01) and acknowledged this agreement in the hearing. (Tr. 129–30.) No other party addressed this issue, and it is therefore resolved.

## **6. Other Meter, Transformation, Reactive Demand, and Distribution Delivery Charges**

Staff agreed with AIC's proposal to use the previously approved methodology to set Meter, Transformation, Reactive Demand and Distribution Delivery charges. (ICC Staff Ex. 2.0 (Harden Dir.), pp. 3–4.) Meter charges are uniform and AIC proposes to keep them uniform. (Ameren Ex. 2.0 (Schonhoff Dir.), p. 21.) Meter charges for each class are set to recover the overall total class meter service revenue requirement determined by the AIC's ECOSS. (*Id.*) AIC examined the relative differences between replacement costs for each meter voltage category to determine the category's pricing. (*Id.*) Meter Charges for the DS-3 and DS-4 classes included the meter service revenue requirement from the DS-6 class. (*Id.*) DS-5 Meter Charges were set to equal the DS-2 class. Ameren Exhibit 2.8 details the Meter Charge development for each class. (*Id.* at 22.) Transformation and Reactive Demand Charges will equal the prices approved in Docket 13-0301, except for the Rate Zone II Transformation Charge, discussed *infra*. (*Id.* at 24.) Distribution Delivery Charges were developed as summarized in Ameren Exhibit 1.1. (*Id.*) Pricing adjustments for the DS-5 class, DS-3 +100kV and DS-4 +100kV subclasses are discussed *supra*. AIC determined the Distribution Delivery Charges for the remaining classes, DS-1, DS-2, D-3 (except +100kV) and DS-4 (except +100kV), by adjusting current charges by equal percentage amounts to reach the applicable revenue requirement for each class or subclass. (*Id.* at 24–25.) The final rate design for Distribution Delivery Charges will depend on the Commission's findings on Rate Mitigation and the use of SFV design for the DS-1 Customer Charge.

## **7. Use of SFV Rate Design for DS-2 Customer Charge**

AIC proposed to use the SFV rate design for the DS-1 and DS-2 classes. (Ameren Ex. 2.0 (Schonhoff Dir.), p. 22.) For the DS-1 Customer Charge, the use of this methodology

remains contested. For DS-2, use of the SFV method will recover a fixed percentage of the class revenue requirement from the monthly non-volumetric (kWh) charges. AIC's target is to recover 50% of the DS-2 class revenue requirement through the fixed bill components, the Customer Charge and the Meter Charge, subject to a 2.5% annual cap on the increase. (*Id.* at 22–23.) For the DS-2 class, the current SFV recovery is 27.2%; applying the 2.5% limitation will result in the use of an SFV percentage of 29.7% for setting DS-2 rates for the January 2015 billing period. (*Id.* at 23.) Staff recommended that the Commission approve this proposal for both DS-1 and DS-2, with the understanding that the Commission will be able to revisit the issue in the next Section 16-108.5(e) rate redesign proceeding. (ICC Staff Ex. 2.0 (Harden Dir.), p. 13; Ameren Ex. 4.0 (Rev.) (Jones Reb.), pp. 8–9.) As discussed further below, the AG disputes AIC's proposal to use SFV to design the Customer Charge for residential DS-1 rates.

## **8. Miscellaneous Tariff Changes**

To implement the approved proposals, certain tariff changes will be required. (Ameren Ex. 1.0 (Rev.) (Jones Dir.), p. 36.) Rate MAP-P will require minor changes to replace references to Docket Nos. 09-0306 *et al.*, with this Docket number, and to incorporate the DS-6 class, as generally illustrated on Ameren Ex. 1.4. (*Id.*) Additionally, modifications to AIC's Electric Service Schedule will be required to include the DS-6 class. (*Id.*) Staff has agreed with these proposals. (ICC Staff Ex. 2.0 (Harden Dir.), pp. 18–19.) No other party has opposed implementing these tariff changes, and therefore these changes are uncontested.

### **B. Contested Issues**

#### **1. Transformation Capacity Charge for Rate Zone II DS-4 +100 kV**

AIC proposes to lower the Transformation Capacity Charge for DS-4 +100kV Rate Zone II customers who have taken service as of December 31, 2012. (Ameren Ex. 1.0 (Rev.) (Jones

Dir.), pp. 32–33.) The proposed rate design for this charge for this particular DS-4 subclass in Rate Zone II departs from uniformity across rate zones—but it is a justified departure. A lower charge for transformation service for these customers follows cost-based principles, because the available cost data for the specific assets used by these customers justifies a lower charge. (*Id.*) The transformation customers in Rate Zone II account over 90% of the service used for AICs DS-4 +100 kV customers, and the transformation plant in Rate Zone II is older and well depreciated, having been installed in the late 1970’s and 1980’s. (*Id.*) Although future changes in the plant investment serving Rate Zone II may warrant a return to a uniform charge, because existing Rate Zone II customers currently cause and use a lower transformation cost, they can be charged a lower price. (*Id.*) All other transformation customers in Rate Zones I and III, as well as new transformation customers in Rate Zone II, would continue to pay the uniform Transformation Capacity Charge. (*Id.*)

Staff objects to this rate design—it believes the proposal is an unjustified departure from uniform charges across the rate zones, and an unnecessarily complicated proposal. (ICC Staff Ex. 2.0 (Harden Dir.), p. 11.) But strict adherence to price uniformity for a particular charge is an appropriate end goal when the costs of service across the rate zones for that service are not materially different. (Ameren Ex. 4.0 (Rev.) (Jones Reb.), p. 9.) This is an instance where the cost of service for a particular rate zone based on existing plant investments supports a departure from uniformity. (*Id.*) And since the proposal impacts only three customers at five service points, in a category of service that includes some of the most sophisticated customers, administering a lower transformation charge for these existing Rate Zone II customers is unlikely to be complicated or confusing. (*Id.* at 10.) There is also no evidence in the record to support the presumption that some undefined amount of future industrial customers would be confused.

(Ameren Ex. 7.0 (Jones Sur.), p. 17.) IIEC agrees. (IIEC Ex. 3.0 (Stephens Reb.), p. 35.)

But cost causation principles are not the only reason that AIC's proposal is justified—a decrease in the Rate Zone II DS-4 +100kV Transformation Capacity Charge allows for movement towards a uniform EDT Cost Recovery charge for these same customers. (Ameren Ex. 4.0 (Rev.), p. 9.) That is because assessing a uniform Transformation Capacity Charge and a uniform EDT Cost Recovery charge for this subclass would produce revenue in excess of the total cost of service allocated to this subclass. (*Id.*) Staff counters that it would be possible to keep the Transformation Capacity Charge uniform and decrease the EDT Recovery Charge to avoid over collecting revenue from this subclass. (ICC Staff Ex. 5.0 (Harden Reb.), p. 4.) But two wrongs do not make a right. The basis for Staff's proposal that the EDT rate should be reduced for this subclass is the same basis for its original opposition to the lower transformation charge—uniformity once established should remain. This, however, ignores the cost-based justification for a different transformation charge. And it creates different EDT rates for the same subclass across rate zones, without having a basis in the record, and frustrates the goal of uniform EDT cost recovery. (Ameren Ex. 7.0, p. 16.) This would be just as, if not more, confusing to customers, if one agreed with Staff's proposition. (*Id.* at 17.)

While there is record evidence supporting a lower transformation charge for existing Rate Zone II DS-4 100+kV customer, due to the unique nature of the costs associated with this subclass, the record lacks justification for lowering the EDT recovery from a class whose EDT costs are already being under recovered. Strict adherence to uniformity in this situation ignores cost-based goals and ultimately frustrates the goal of EDT cost recovery uniformity. Adoption of AIC's proposed rate design furthers both goals. The Commission should adopt it.

## **2. Seasonally Differentiated Rates for the DS-3 and DS-4 Classes**

In the Proposed Order for Docket 11-0279, AIC and GFA were directed to conduct workshops designed to study seasonally differentiated rates for the DS-3 and DS-4 classes. (Ameren Ex. 2.0 (Schonhoff Dir.), p. 25.) Even though that proceeding ultimately was withdrawn, GFA and AIC met on two separate occasions, and as a result of those discussions, AIC proposed an optional DS-6 tariff designed to provide existing DS-3 and DS-4 customers with a seasonal rate. (*Id.*) DS-3 and DS-4 customers who have received at least one rate limiter bill credit per year in at least 3 of the past 4 years (2009-2012) were analyzed as the new DS-6 class for purposes of this proceeding. (*Id.* at 26.) GFA proposed modifications to AIC's DS-6 class. (See GFA Ex. 1.0C (Adkisson Dir.), pp. 4–11.) But AIC and GFA resolved their differences and agreed on the terms of the new DS-6 class, as embodied in Ameren Exhibit 5.5 and discussed below.

### **a. Timetable for Elimination of DS-3 and DS-4 Rate Limiter Credits**

AIC initially proposed that the existing rate limiter provisions for DS-3 and DS-4 customers would be eliminated upon the effective date of the DS-6 tariff. (Ameren Ex. 2.0 (Schonhoff Dir.), p. 26.) GFA expressed concern about the potential impact of rate increases ranging from 50% to over 100% if the rate limiter was eliminated entirely, and instead suggested the rate limiter be set at a level that would limit the rate of increase to equal the percentage increases of other customer groups. (GFA Ex. 1.0C (Adkisson Dir.) p. 3.) The parties agreed to a phase out of the rate limiter over a 3-year period, with the rate limiter being completely eliminated upon the implementation of the next rate redesign proceeding into an annual MAP update proceeding. (Ameren Ex. 5.0 (Rev.) (Schonhoff Reb.), p. 21.) Such a compromise ensures that customers will have more time to consider and transition to the DS-6 rate, and



provides customers a price signal each year to consider movement to the DS-6 rate. (*Id.*) The expectation is that, beginning with the January 2018 billing period, rate limiter credits will be completely phased-out. (Tr. 58.)

**b. Proposed DS-6 Temperature Sensitive Delivery Service**

The proposed DS-6 tariff shares a similar structure to the DS-3 tariff, and includes a customer charge, meter charge, transformation charge, distribution delivery charge, and excess demand charge. (Ameren Ex. 2.0 (Schonhoff Dir.), p. 27.) The customer, meter and transformation charges will be assessed at the applicable DS-3 and DS-4 charges. (*Id.*) AIC, GFA and Staff agree that the terms of Ameren Exhibit 5.5 should establish the excess demand charge. Initially, GFA suggested that the DS-6 rate be limited to the first 100 DS-3 customers and the first 50 DS-4 customers. (GFA Ex. 1.0C (Adkisson Dir.), p. 8.) But as part of the compromise reached between AIC and GFA, such limitation ultimately was dropped. (Ameren Ex. 5.5.)

Customers may elect to take service under the DS-6 tariff by notifying AIC before May 1 with service beginning the following June billing period. (Ameren Ex. 2.0, p. 26.) Each DS-6 customer selecting this rate will be assigned a delivery allowance—an allotment of demand the individual customer can impose on the system during on-peak hours between May 15 and September 14 of each calendar year when the average temperature is above a certain temperature threshold. (Ameren Ex. 5.0 (Rev.), p. 24.) AIC initially proposed tier 1 and tier 2 temperatures of 70 and 78 degrees Fahrenheit, respectively, applied for any period during on-peak hours. (*Id.* at 22.) GFA proposed temperatures of 80 and 85 degrees Fahrenheit. (*Id.*) Ultimately, the parties agreed that the delivery allowance should be determined with temperature thresholds of 78 degrees Fahrenheit for tier 1 and 83 degrees Fahrenheit for tier 2. (*Id.*) These terms establish

reasonable thresholds for the time period where AIC's system is most likely peaking that should provide AIC with reliability benefits, while allowing GFA members to operate grain elevator operations during warmer days than previously allowed. (*Id.*)

In the event that DS-6 customers exceed their delivery allowance, they will be charged an excess demand charge. The amount of that excess delivery charge was initially disputed, with AIC proposing a charge of 4 and 12 times the base distribution delivery charge and GFA proposing a charge of 2 to 4 times the base distribution delivery charge. (*Id.* at 23.) Eventually, the parties agreed to a fixed excess demand charge of \$13.23/kW (equivalent to 4 times) and \$19.84/kW (equivalent to 6 times), rather than a multiplier of the base distribution delivery charge. (*Id.*) An agreed-upon fixed charge was appropriate because, if the Commission were to adopt the CP allocation method for primary distribution lines, the base distribution delivery charge may be driven down to below \$1/kW, resulting in insufficient excess demand charges. (*Id.* at 24.) Low excess demand charges would not provide appropriate price signals and could drive unintended participants to the rate that otherwise would remain DS-3 and DS-4. (*Id.*)

The currently proposed DS-6 rate fulfills the Commission directive of offering a seasonal rate to DS-3 and DS-4 customers, is a result of extensive negotiations, and is supported by AIC, GFA and Staff. Importantly, this compromise between GFA and AIC appropriately balances each parties interests and may result in a lower cost of service for all customers. By appropriately incentivizing customers to use less electricity during system peak hours, AIC realizes reliability benefits and potentially may incur less utility investment costs, resulting in lower customer rates for all customer classes.

### **3. Use of SFV Rate Design for DS-1 Customer Charge**

The DS-1 class Customer Charge was developed with a Straight Fixed Variable (SFV)

rate design. (Ameren Ex. 2.0 (Schonhoff Dir.), p. 22.) The use of SFV design means that AIC proposes to recover a fixed percentage of the DS-1 revenue requirement from the monthly non-volumetric (kWh) charges. (*Id.*) The target percentage of revenues to recover through fixed charges is 50%, subject to a 2.5% (or 250 basis points) capped increase each year. (*Id.*) Given that the current SFV recovery for the DS-1 class is 44.8%, the SFV percentage that would be used to set rates for the January 2015 billing period would be 47.3%. (*Id.* at 23.) The 50% target is the same percentage that was approved for Commonwealth Edison’s residential rate design in Docket 10-0467. (*Id.*) The use of an SFV percentage target is also consistent with the design of AIC’s gas residential rates to collect 80% of the revenue requirement through the Customer Charge. (Tr. 70; Ameren Ex. 4.0 (Rev.) (Jones Reb.), p. 26.) In prior rate proceedings, such as Dockets 09-0306 *et al.*, AIC proposed a fixed dollar amount for the Customer Charge, rather than a percentage target. (Tr. 70.) A percentage target, however, can be applied more easily for subsequent rate proceedings. (Tr. 70, 72–73.)

Staff has agreed with AIC’s proposal to continue to gradually move towards a 50% SFV rate design for the DS-1 class. (Ameren Ex. 4.0 (Rev.), pp. 7–8.) But the AG has not—the AG’s witness Mr. Rubin proposes to unwind the SFV rate design by reducing the revenue to be collected from the Customer and Meter Charge to equal only those costs deemed “customer-related” in the cost of service study. (*Id.* at 32–33.) Instead of recovering close to 50% of delivery service revenue through fixed charges, Mr. Rubin’s design would instead only recover about 28% of delivery service revenue through fixed charges. (*Id.* at 33.) The remainder of the DS-1 delivery revenues (72%) would be recovered through variable delivery service charges. (*Id.*)

The Commission’s abandonment of SFV design and adoption of Mr. Rubin’s rate design

for DS-1 customers would have several, stark consequences. First, it would dramatically change the price signals sent to residential customers and alter how AIC currently recovers revenue from the DS-1 class. Whereas currently AIC is recovering nearly 45% of DS-1 delivery revenue through fixed charges, under Mr. Rubin’s proposal, AIC would recover only 28% of DS-1 delivery revenue through fixed charges. This change would lead to a lower Customer Charge on customers’ bills, but higher and more volatile delivery service charges, varying more dramatically by usage level and usage month than AIC’s rate design. Second, the use of Mr. Rubin’s design, in turn, would decrease rate stability and increase revenue volatility, resulting in greater earnings swings. (Ameren Ex. 4.0 (Rev.), p. 29.) Under Mr. Rubin’s design, a hot summer and/or cold winter will tend to increase AIC revenue, while a cool summer and/or warm winter will tend to decrease revenue. (*Id.*) Finally, adoption of Mr. Rubin’s design would negatively impact customers who heat their homes using electricity—the very electric space-heat customers who caused the Commission to encourage AIC to use SFV design in the first place to address bill impacts. (*Id.* at 26, 33; Ameren Ex. 7.0 (Jones Sur.), pp. 19, 25–26.) Here, the record shows that the Commission’s rejection of the continued use of SFV design will cause larger space-heat customers—indicative of single family homes—to experience an incremental increase of 10% or greater (on top of any other base rate increase required). (Ameren Ex. 7.0, p. 26; Ameren Ex. 7.1.)

The premise for Mr. Rubin’s rate design—a premise that the Commission repeatedly has rejected for AIC’s residential electric and gas delivery rates—is that fixed charges should only recover costs identified in AIC’s ECOSS as “customer-related.” But that premise and the resulting rate design do not accurately reflect the actual costs incurred by AIC to service a residential customer. There are “demand-related” delivery costs that are fixed, sunk costs that

AIC incurs to service the DS-1 class, regardless of the usage by individual residential customers. (Ameren Ex. 4.0 (Rev.), pp. 26–28.) The delivery system is designed to stand ready to serve the maximum expected demands of customers, whether used or not. (*Id.* at 32.) Once installed, actual usage by the individual residential customer will not change these fixed costs. Currently, AIC’s electric business is exhibiting the same characteristics as its gas business: flat to declining sales from one year to the next. (Ameren Ex. 7.0, p. 22.) Retaining an SFV rate design in DS-1 rates also recognizes that AIC will continue to incur annually demand-related, fixed costs to provide electric delivery service for residential customers, even in a period of static demand.

Consider for example a residential subdivision of 50 customers. The capital cost of utility poles to serve those customers does not change, as usage changes through the day or from season to season; the same number of utility poles will be in place throughout the year and the customer’s usage will not change the investment in the distribution system that AIC has already made. (*Id.* at 26–28.) Similarly, the fluctuations in a customer’s usage over a year have little to no impact on the operational and maintenance costs that AIC incurs to provide safe, adequate and reliable service. (*Id.* at 27.) As a result, a change in usage for a residential customer is unlikely to result in a meaningful change in costs incurred to serve that customer, especially for the time period that the rates will be in effect. (*Id.* at 28.) Effective pricing should provide AIC with an opportunity to recover these fixed costs, while providing customers with an accurate price signal of the costs that AIC incurs to provide the next kWh of service. (*Id.*) But under Mr. Rubin’s design, a customer with no use (or low use) in a particular month would not pay for (or would pay little for) the line transformers, primary lines, secondary lines, poles, substations, and other facilities that are constructed and maintained for that customer. The use of SFV design recognizes that these fixed costs should be recovered through fixed charges, regardless of usage.

Granted, a low-use customer places lower demands on the delivery system. But that does not mean that the costs incurred to serve that low-use customer vary in direct proportion to use. Mr. Rubin’s analysis—besides assuming the cost of service the residential class can be split into 20 different rate sub-classes—relies on the faulty assumption that all non-customer, demand-related costs exhibit a direct correlation to customer load. (Ameren Exs. 4.0 (Rev.), p. 31; 7.0, pp. 24–25.)

Mr. Rubin attempts to prop up his analysis by claiming that the use of SFV design (1) does not give AIC the proper incentive to improve efficiency; and (2) is unnecessary for revenue stability given the annual update and reconciliation proceedings for formula rates. (Ameren Ex. 4.0 (Rev.), pp. 28–29.) These arguments are red herrings. The absence of SFV rate design will not diminish a utility’s incentive to operate efficiently; that incentive exists, independent of how revenues are recovered from the residential class. (*Id.* at 29; Ameren Ex. 7.0, p. 23.) The recovery of additional revenue through the Customer Charge (for historical costs) does not lessen the incentive to control future costs. (*Id.*) If anything, the annual prudence and reasonableness review in the formula rate structure dictates AIC’s future spending decisions. Corporate budgets for operation and maintenance expense, capital spending, and sales are made the year prior, assume “normal” weather, and would expect the same amount revenue, regardless of rate design. (*Id.*) Nor does the formula rate mechanism guarantee revenue stability. Indeed, Mr. Rubin’s rate design would result in greater than expected sales (and thus revenue) in some years (*e.g.*, due to abnormally severe weather), even though corporate planners will not know if the weather will be more severe (or less severe) than average. (*Id.*) The retention of SFV design also mitigates against potential delivery service revenue erosion from AIC’s promotion of energy efficiency programs. (Ameren Ex. 7.0, p. 23.)

The substantial weight of the record supports the continued use of SFV in the design of residential electric delivery rates. The opinions and assumptions that underlie the AG's proposed rate design have been rejected previously; they are no less convincing this time—the demand-related costs of serving residents remain constant, regardless of usage. The impacts, however, of unwinding the SFV design are significant and undesired: radically different price signals (and mixed signals for AIC's combination customers), greater customer bill swings from month to month, greater utility earnings swings and revenue instability (from month to month and season to season), and incremental increases for the electric space-heat customer segment. Neither these adverse impacts nor the AG's evidence supports the discontinuation of SFV in the design of DS-1 rates. The Commission should reject the AG's DS-1 rate design.

Dated: January 7, 2014

Respectfully submitted,

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**CERTIFICATE OF SERVICE**

I, Albert D. Sturtevant, an attorney, certify that on January 7, 2014 at approximately 4:45 p.m., I caused a copy of the foregoing *Initial Brief of Ameren Illinois Company* to be served by electronic mail to the designated email addresses of record of the individuals on the Commission's Service List for Docket No. 13-0476, listed below.

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